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*Building Canada
for the 21st Century*

The Canadian Opportunities Strategy

Helping Manage
Student Debt

February 1998



Canada



“Canadians do not need to be told that student debt has become a major problem. Students know it. Their families worry about it. Graduates must deal with it.”

*Finance Minister Paul Martin
1998 budget speech*


New Measures to Help Manage Student Debt

- Tax relief for interest on all student loans
- Interest relief extended to more graduates
- An extended repayment period for those who need it
- An extended interest relief period for individuals who remain in financial difficulty
- A reduction in the loan principal for individuals who still face financial difficulties

The Challenge

In 1990, the average student debt load of a graduate completing four years of post-secondary education was \$13,000. By next year, it will have almost doubled – to \$25,000. At the beginning of this decade, less than 8 per cent of borrowers had debts larger than \$15,000. Now, almost 40 per cent do.

In December 1997, federal and provincial First Ministers agreed on the need to lessen the financial burden on students, and asked the federal government to address this issue in the 1998 budget.



Canada Student Loans Program

Since 1964, the federal government has provided over \$15 billion in financial assistance to students under the Canada Student Loans Program. This year, more than 380,000 students – about 30 per cent of all students enrolled in universities, community colleges and vocational and technical institutes – are supported by the Canada Student Loans Program at a cost of \$530 million. An additional \$120 million is paid to Quebec and the Northwest Territories to finance their comparable programs.

Under the Canada Student Loans Program, the government pays interest on the loan while a student is in school. For six months after graduation, interest accrues but the graduate is not required to make payments. After this grace period, the graduate is responsible for paying off the loan, usually over the next 9½ years.


For those facing financial difficulties, the federal government pays all interest costs for up to 30 months in the first five years after the student has left school. This interest relief period was extended from 18 months in the 1997 budget.

Helping Manage Student Debt

The government's *Canadian Opportunities Strategy* introduces a number of measures to help students manage their debt:

Tax Relief for Interest on Student Loans

For the first time, all students will get tax relief for interest payments on their student loans. Effective this year, individuals will be allowed to



claim a 17-per-cent federal tax credit on the interest portion of payments of federal and provincial student loans.

Example


Ted is repaying his student loan of \$25,000. Total repayments this year are \$3,800, of which \$2,125 is interest. The combined federal and provincial value of the tax credit for payment of interest will be about \$530 in the first year and up to \$3,200 over the 10 years during which the loan is paid off.

Improvements to the Canada Student Loans Program

Interest Relief

Effective April 1998, changes will be made so that a person can earn more and still be eligible for interest relief. This will be done by raising the income thresholds used to qualify for interest relief by 9 per cent.

Then, beginning in 1999, partial interest relief will be available further up the income scale for graduates facing financial difficulties. Below the basic income threshold, the government will continue to cover 100 per cent of interest. Above the basic threshold, the government will pay 75 per cent, 50 per cent or 25 per cent of interest, depending on the graduate's income, up to a limit where the individual remains solely responsible for loan payments.



These two measures will assist about 100,000 more individuals.

Income thresholds for interest relief vary with the size of the loan and the number of dependants in the family.

Example

Marie has total student loans of \$25,000, including loans under the Canada Student Loan Program of \$15,000.

Currently, if Marie's annual income is \$22,000, she is not entitled to interest relief because her income is above the current income threshold of \$20,460.

Starting in April 1998, with expanded interest relief, Marie will be entitled to full interest relief because her income is below the new \$22,300 threshold.

With graduated interest relief beginning in 1999, Marie will receive partial interest relief with income up to \$28,300. For example:

- if her income is \$24,000, the government will pay 75 per cent of the interest on her loan;*
- if her income is \$26,000, the government will pay 50 per cent of the interest; or*
- if her income is \$28,000, the government will pay 25 per cent of the interest.*

Repayment Period Extension

For individuals who have used 30 months of interest relief, the lending institution will be asked to extend the loan repayment period to 15 years. At current interest rates, this will lower monthly payments by nearly 25 per cent.



Extension of Interest Relief

If, after extending the repayment period to 15 years, an individual remains in financial difficulty, interest relief will be extended from 30 months to up to 54 months during the five years after leaving school.


Debt Reduction

For the minority of graduates who still remain in financial difficulty after these relief measures, effective this year, the government will reduce the loan principal if annual payments exceed, on average, 15 per cent of the individual's income. The maximum amount of assistance will be \$10,000 or 50 per cent of the loan, whichever is less. To qualify, five years must have passed since completion of studies, and the individual must have exhausted interest relief.

Example

Elizabeth has exhausted interest relief, the repayment period has been extended to 15 years, and five years have passed since graduation. But she is still in financial difficulty with income of \$17,000 and total student debt of \$25,000 (i.e. \$15,000 Canada Student Loan, \$10,000 provincial student loan).

The principal on her Canada Student Loan will be reduced from \$15,000 to \$7,500. If Elizabeth's income was \$22,000, the reduction would be \$3,820. If her income was greater than \$25,970, she would not receive a reduction in the principal on her loan.



Performance and Accountability


In order to ensure that Canada Student Loans continue to provide as much assistance as they can to those who need it, the federal government is taking steps to ensure that both educational institutions and students use the program as it is intended.

The government will also work with the provinces that participate in the Canada Student Loans Program to better co-ordinate federal and provincial student financial assistance and move toward a single loan product.

The Canadian Opportunities Strategy

The *Canadian Opportunities Strategy* contains important measures to enhance affordable access to knowledge and skills.

- **Canada Millennium Scholarships** will increase access to post-secondary education for over 100,000 students of all ages each year, and will be available for both full- and part-time studies.
- **Canada Study Grants** of up to \$3,000 a year will help over 25,000 needy students with children or other dependants.
- For the first time, all students will get tax relief for interest payments on their student loans.
- Improvements to the **Canada Student Loans Program** will help those facing financial difficulties in repaying their debt.
- Funding will be increased to the three **granting councils** to support advanced research and graduate students.
- Tax-free withdrawals from **RRSPs** for lifelong learning will help Canadians upgrade their skills or learn new ones through their working lives.

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- The education credit and child care expense deduction will be extended to part-time students.
 - A new Canada Education Savings Grant will be provided to families who save for their children's education through registered education savings plans.
 - To support youth employment, funding will be more than doubled for youth at risk who lack basic education and job skills, and employers will be given an employment insurance premium holiday for additional young Canadians hired in 1999 and 2000.
 - Access to the information highway will be expanded to more schools and communities.

How can I get more information?

For further information, call 1-888-781-0000 (TDD: 1-800-465-7735) between 8 a.m. and 10 p.m. eastern time Monday to Friday.

Information is also available on the Internet at:
<http://www.fin.gc.ca/>

Copies of this brochure and other information regarding the *Canadian Opportunities Strategy* will be available at post-secondary institutions across Canada.

You can also obtain copies of this brochure or other budget papers from:

Distribution Centre
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Tel.: (613) 995-2855
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